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Opening Statement

Panhandle Reinforcement Project Oral Hearing

Good morning panel. Mr. Shorts and myself will be providing an overview of the project. We will be taking you through each of the five points on the screen.
Let me start with Need.

Beginning the winter of 2017/2018, there is no pipeline capacity available to attach firm in-franchise customers in the areas served by Union's Panhandle Transmission System. Union is already having to say "no" to incremental firm load growth requests from contract rate customers and, without the proposed facilities, will need to refuse service requests from general service customers, including residential customers.

Union has significant unfulfilled demand for firm service on the Panhandle System. In addition to existing unfulfilled demand, Union has received incremental requests for firm service since this Application was filed with the Board. The demand for firm service comes from all market segments and geographic areas across Union's Panhandle System. Union is in the process of contracting for the forecasted 2017 contract rate class demand and already has indications of further strong demand for 2018.

Reinforcing the Panhandle Transmission System is a necessary investment in order to attach any customers, even general service customers, and is fundamental to the economic well-being of this specific area of the Province and, more broadly, Ontario. The Proposed Project:

1. Provides competitive and affordable energy supply;
2. Assists to retain industry and business, and attract new industry and business;
3. Helps to encourage economic growth; and
4. Will create employment opportunities.

Without further capacity, economic development in the region will be negatively impacted, businesses will choose to locate to other jurisdictions where affordable natural gas is available and existing businesses will not proceed with expansions nor will new businesses be attracted to this area; all resulting in lost job opportunities and homeowners will need to pay for more expensive energy options.
Let me now address the second item: Why Union's current Panhandle System cannot accommodate that Need and how the Proposed Project satisfies that Need:

The Panhandle Transmission System consists of two pipelines – the NPS 16 pipeline which runs from Dawn to Ojibway and the NPS 20 pipeline which runs from Dawn to the Sandwich Compressor Station, then ultimately connects into the NPS 16 pipeline at the NPS 16/20 Junction.

The NPS 16 pipeline serves Chatham-Kent and the northern half of Essex County; while the NPS 20 pipeline serves the southern half of Essex County. The City of Windsor is served by both the NPS 16 pipeline and the NPS 20 pipeline. The flow from the NPS 20 pipeline is controlled at Sandwich to optimize flow between the NPS 20 and NPS 16 pipelines into Windsor and to retain the greatest amount of capacity on the NPS 20 pipeline to serve the Leamington / Kingsville market.

Approximately 90 % of the Design Day Panhandle System demand is served from the Dawn Hub where Union's storage and gas supply is located. Approximately 10% of the Design Day Panhandle System demand is served using Union's firm gas supply for sales service customers, which arrives at Ojibway via Panhandle Eastern.

With respect to Ojibway, the ability to import gas into Union's system is limited by the ability of the local market to consume that gas and the ability of the existing transmission system and Sandwich Compressor Station to move the remainder back towards Dawn. In the summer, the firm import capability is limited to 115 TJ/d and in the winter, the firm import capability is limited to 140 TJ/d.

At Ojibway, Union relies on 60 TJ/d of gas supply to meet Panhandle Transmission System demand on Design Day. Union has historically contracted for capacity to import gas at Ojibway, providing diversity to its gas supply portfolio. Since 2013, Union's firm Ojibway imports have had the effect of deferring reinforcement of the Panhandle Transmission System.

Growth in both the Windsor and Leamington/Kingsville markets requires additional flow on the NPS 20 pipeline that cannot be delivered by the existing facilities. To increase capacity, higher pressure gas must be carried further west on the NPS 20 pipeline toward the market area.

The proposed NPS 36 pipeline, which replaces a portion of the existing NPS 16 pipeline, will increase the pressure along the existing NPS 20 pipeline, in turn, raising the inlet pressure to the existing laterals that service the distribution markets, and increasing firm capacity of the Panhandle Transmission System.

I'll turn it over to Mr. Shorts to address the fourth item: What other alternatives were considered.

As part of its pre-filed evidence, Exhibit A, Tab 6, Union considered a number of alternatives, including other new facility designs; additional supply at Ojibway combined with new facilities; and LNG/CNG alternatives. All of these alternatives were less economic than the Proposed Project and/or were not practical solutions. For the most part, these alternatives rely on 60 TJ/d of firm supply arriving at Ojibway on a Design Day. Union is comfortable that this level of supply sourced through Panhandle Eastern provides the appropriate level of diversity to its gas supply portfolio while supporting the western end of the Panhandle System.

To that end, Union and Panhandle Eastern have had continued discussions with respect to capacity and the required contracting terms. Union has consistently been interested in ensuring that 60 TJ/d in total firm transportation capacity is controlled by Union at Ojibway. As part of the 60 TJ/d today, Union relies on a delivered service from a third party of 21 TJ/d to provide firm supply to Ojibway. The contract for the delivered service expires on October 31, 2019 and does not have renewal rights. Union has noted that this 21 TJ/d of delivered supply may not be available after October 31, 2019. Without the delivered supply, it will create a situation where Design Day demand cannot be satisfied.

As an update, Union has very recently agreed to contract for 23 TJ/d of firm transportation to Ojibway on Panhandle Eastern starting November 1, 2019 to provide certainty post 2019. Union will also renew its 37 TJ/d of existing transportation contracts with Panhandle Eastern effective November 1, 2017. All of this capacity includes Right of First Refusal provisions. This secures 60 TJ/d of long-term firm transportation to Ojibway to support the western end of the Panhandle System – and puts Union back in the position we have been in since 2012. This contracting arrangement is consistent with Union's proposal in this proceeding.

As can be seen in the communications filed as part of this proceeding, Rover Pipeline has been interested in contracting for transportation capacity on Union's system from Ojibway to Dawn since 2015. I can also report that Rover Pipeline will be contracting for the remaining 35 TJ/d of existing capacity on Union's system from Ojibway to Dawn through a long-term renewable C1 transportation contract. Rover Pipeline will be using this capacity to provide its shippers with a delivered service to Dawn. This contract increases the committed capacity from Ojibway to Dawn on Union's system to the full 115 TJ/d described earlier.

Let me now turn to: Why additional imports at Ojibway are not a viable option.
It has been suggested that more supply at Ojibway is a pipeline capacity solution. Union does not support that notion and does not believe it is prudent. As stated earlier, Union supports 60 TJ/d of Ojibway deliveries in the sales service gas supply portfolio.

Let me start by saying that, the lack of liquidity at Ojibway does not support purchasing supply at that point. There is limited flow at this trans-shipment point between two pipeline systems; there are a limited number of counterparties to do business with; and there is a lack of transparency at Ojibway as it is not a reported trading point.

The only way to truly obligate supply at Ojibway is for Union to control the supply, similar to how Union controls 90% of the supply for the Panhandle Transmission System that comes from Dawn. Union can control supply to Ojibway by contracting for firm transportation capacity on Panhandle Eastern or through a firm delivered service – such as a delivered supply service.

Union has discussed the issue of obligated flow through Ojibway with Rover Pipeline and while Rover Pipeline would consider such an arrangement for up to 35 TJ/d, Union would still be required to control the supply by purchasing from Rover shippers at Dawn. The agreements associated with an obligation arrangement would be complex.

This would, in effect, limit Union to purchasing supply from only Rover shippers in a much larger Dawn market for this 35 TJ/d of supply. Our view is that Rover shippers will price supply to reflect Union's next best option, which for an obligation at Ojibway, would therefore likely be supply delivered from the Mid-Continent, more specifically Panhandle Field Zone. This supply would therefore be priced at a premium, significantly higher than Dawn supply as we have noted in our pre-filed evidence and in information responses.

In fact, Union has had past experience in markets with very few supply options. Prior to building the Burlington Oakville Pipeline, Union relied on a delivered service from third parties. The price of that service increased three-fold as Union's alternatives for supply became limited.

There is also some uncertainty that supply will be available from Rover shippers at Dawn to support any obligated deliveries at Ojibway starting November 1, 2017. The Rover Pipeline Project remains targeted for an in-service date of November 1, 2017 to Vector/Dawn. However, it is unclear at this point what the utilization will be at November 1, 2017, assuming the Rover Pipeline is constructed on-time, particularly as producers ramp up production to fill their capacity, build midstream assets to connect to the Rover Pipeline and seek premium markets served by the Rover Pipeline, including the Gulf Coast. Union does not control the Rover supply to Dawn and therefore this would create significant price and availability risk.

With respect to the notion of securing 175 TJ/d of supply at Ojibway, Union cannot support this suggestion. 175 TJ/d represents 35% of Union's total sales service gas supply. A commitment of this size would significantly reduce diversity in Union's gas supply portfolio. Dawn purchases and the ability to contract other paths (such as delivered services or Michigan supply) would be reduced to less than 20 TJ/d in a portfolio that is nearly 500 TJ/d; eliminating flexibility currently built into Union's gas supply plan. 175 TJ/d would amount to a significant commitment to the Mid-Continent purchases at Panhandle Field Zone which are at a premium to Dawn and certain other sources.

For all of these reasons, Union does not support an increase in reliance on firm Ojibway supply, whether that be an additional 35 TJ/d or a total of 175 TJ/d, to satisfy the demands of the growing Panhandle System market. The Proposed Project eliminates the uncertainty surrounding incremental obligated supply through Ojibway and locks in costs for our customers – in other words, the Proposed Project effectively manages price and availability risk while meeting the growing needs of our customers.